Public Service Pension Plan

2002

Annual Report

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2002 Annual Report

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Message from the Trustees

The Public Service Pension Board of Trustees is pleased to present our second annual report, which covers the Public Service Pension Plan fiscal year ending March 31, 2002. We would like to welcome all new members to the plan.

Membership

There are currently over 96,300 active plan members and approximately 24,600 retired plan members. The number of retired members increased by about 9% during the year and is projected to continue to grow by 4% per year in the next three years.

Purchase of Service

The board is working to make the benefit rules and processes more easily understood. One of our major initiatives this year simplified the purchase of service rules. These new rules, which come into effect on April 1, 2002, use a current salary/current employee contribution rate calculation method to determine purchase of service costs. Under the old rules, some costs were based on a member's salary and contribution rate at the time the service occurred, with interest added to the date of payment. The change allows members to easily calculate a purchase of service cost on their own, giving them immediate access to the information needed to make a decision on whether to purchase the service.

Benefits

Basic pension benefits for retired members use a defined benefit formula, using the member's age, years of service and salary. The board approved changes to the plan's benefit formula. Plan members who were active contributors to the plan on or after March 1, 2002, and retire after March 31, 2002, will have their pensions calculated on a new 1.35% formula, instead of the old 1.3% formula. This change will boost the average member's lifetime pension by about 2.6%, depending on pensionable earnings. Further information about the new pension formula is available on the web site at **pensionsbc.ca**.

The provincial government recently made changes to the Medical Services Plan and Pharmacare. Further changes are expected in 2003. These changes could have a significant cost impact on post-retirement group benefits and the funding provided by the employer contributions to the Inflation Adjustment Account. The board is concerned about this issue and is reviewing the plan design of the group benefits now available to retired members. The board will advise members of any changes to funding or the coverage provided by the medical, extended health, dental or group life benefits when the review is completed.

Benefits Administration

The board continues to challenge the Pension Corporation to provide high-quality service to plan members. During the reporting period, requests for service increased 56%, partially because of Early Retirement Incentive Programs offered by some plan employers. The corporation is working to ensure plan members receive timely service, despite this increase.

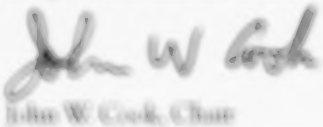
The corporation recently conducted a Client Satisfaction Survey to determine what service areas plan members would like to see improved. The results of the survey indicate overall satisfaction. However, members expressed a need for more timely service, more opportunities for personal contact and retirement materials that are easier to understand.

While many of these needs have already been addressed, we are committed to ensuring that you receive the service you have demanded.

In the coming year, the Board will build on this commitment while we work to secure your plan's financial future.

Communications Outcomes

Communicating with plan members is a priority of the Public Service Pension Board of Trustees. The Board established a Communications Committee, with employer and plan member representatives from the Board working with the corporation in a joint effort to improve communication materials. The corporation also continues to produce *Pensionpics*, a series of information sheets on various topics, and a newsletter for retired members. Information about the plan is available online at **pensionsbc.ca**.



John W. Cook, Chair

Trustees as of March 31, 2002

Chair

John W. Cook

Trustee	Appointing Body	Nominating Body	Employer
Ed Bodnar	BC Government Retired Employees' Association		Retired
Joyce Burns	BC Government and Service Employees' Union (BCGEU)	Unions other than BCGEU	BC Ferry Corporation
Adam Chapman	Provincial Government		Public Service Employers' Council
Bruce Clow	Provincial Government		BC Buildings Corporation
David Day	Provincial Government	BC Excluded Employees' Association	BC Excluded Employees' Association
Doug Hendry	BCGEU	Professional Employees Association	Professional Employees Association
Derek Johnston	Provincial Government	Crown Corporations Employees' Association	BC Ferry Corporation
Bruce Kennedy	Provincial Government		Public Service Employers' Council
Margaret Mahood	Provincial Government		BC Pension Corporation (retired)
Sandi McCuaig	BCGEU		BCGEU
Paul Martin	BCGEU		BCGEU
Wayne Scott	Provincial Government		Public Service Employee Relations Commission
David Vipond	BCGEU		BCGEU
Diane Wood	BCGEU		BCGEU

Message from the Chief Executive Officer—Pension Corporation

The Pension Corporation is pleased to act as the agent for the Board of Trustees in the administration of the Public Service Pension Plan. In this capacity, the corporation provides services to active and retired members in the Public Service Pension Plan, performing key administrative functions such as enrolling members, collecting and recording members' and employers' contributions, and calculating, processing and paying pension benefits. In addition, the corporation provides secretariat policy and communications support to the Board of Trustees, and deals on behalf of the Board, with the Canada Customs and Revenue Agency and the Pension Benefits Standards Branch.

This was the first year of the corporation's three year Transition to Building Business Plan, the four principal features of which are the protection of member-centered focus, the development of a well-trained staff, the efficient management of member information, and the enhancement of our web-based services.

This year the corporation invested additional resources in working with plan employers to improve the quality and timeliness of their submission of member data. This investment has resulted in considerable improvement in the quality of the information received by the corporation and has enhanced our ability to respond more quickly to members' service requests.

The simplification of purchase of service rules and introduction of Early Retirement Incentive Programs for several plan employers has resulted in a significant increase in the number of member requests this year. Demand for service increased by 30%, with our output actually increasing by over 40%. Backlogs in respect to pension estimates and terminations, given have been eliminated. We are working through our backlog of purchase of service requests and are meeting our service targets for requests received under the new simplified rules. While we did not achieve all of our performance targets over the entire year, we did finish the year in good shape and we have expanding capabilities to meet service requests.

Technology remains a key component in our business strategy. We completed a comprehensive review of our web site and provided a new online estimator to calculate the cost of purchasing pensionable service under the simplified purchase of service rules. We also began our web re-design which, when completed, will offer enhanced self-service options to plan members.

The key to our success in the pension plan service provider's multi-employer environment is dedicated to providing quality service to plan members. I would like to acknowledge the contribution of our employees in meeting the objectives of the Pension Corporation. I am proud of their accomplishments and I am confident in the Pension Corporation's ability to meet plan members' expectations. I would also like to extend my thanks to the Public Service Board of Trustees for their encouragement, support and understanding.

John Wiebe
Chief Executive Officer
the Pension Corporation

Message from the Chief Investment Officer

Market Review

Despite some co-ordinated financial shocks (e.g., the Asian crisis) the 1990s was an incredibly bullish environment for capital markets. The returns were attributable to many factors, including: a privileged economic experience and predominant monetary conditions deriving from technological innovations, globalization, and expanded credit trends. Markets also benefited from a positive demographic trend, improved fiscal performance, as well as declining inflation, unemployment, and interest rates.

The positive economic and investment environment bolstered investor confidence and resulted in a significant shift in investment activity from fixed income securities to equities. Some companies' shares were credited to extreme valuations based on the expectation that these earnings would continue to experience strong growth. This was particularly prevalent in technology companies and led to warnings from the U.S. Federal Reserve Chairman about "irrational exuberance."

Most equity markets reached record levels in 2000. Since that time, most markets have been very volatile, and there has been significant concern in the marketplace about the earnings of many companies. In terms of economic conditions, there has been a marked reduction in capital spending, and economic growth, during the past two years, has declined substantially. The Nasdaq Composite has been hit particularly hard, as it is heavily weighted with technology companies that experienced an economic slowdown. This prompted central banks to aggressively cut interest rates. For example, the U.S. Federal Reserve cut the federal funds rate 11 times in 2001, dropping the benchmark rate from 6% to 1.75%.

Stock prices dropped precipitously in September following the terrorist attacks on the World Trade Center. They rebounded to end in the fourth quarter of 2001, as economic growth exhibited signs of stronger than anticipated. However, corporate governance, and auditing irregularities associated with Enron and WorldCom, Tyco, Global Crossing, and other companies in 2002. The net effect was that the S&P 500 Index posted its worst annual decline since 2000, falling 23%, and the Nasdaq Composite Index declined 31%, its worst annual performance since its inception in 1971.

The failure of Enron's board of directors to address or monitor auditors' conflicts of interest, the company's use of off-balance sheet entities, and other questionable accounting practices, the bankruptcy of the company has led to the enactment of sweeping new legislation governing corporate governance and investor protection. Significantly, the Sarbanes-Oxley Act of 2002 mandates a comprehensive review and overhaul of corporate governance guidelines.

The impact of a bearish market on the returns of the Fidelity Service Contract Fund was mitigated by holding a diversified portfolio and by other investment measures taken by the Board's Committee on Investment Management. Specifically, the net effect was that despite weak market conditions, the Fund still earned a 7.5% return in fiscal 2002.

Financial and Operational Highlights

The Public Service Pension Plan is financially healthy. Every three years an independent actuary reviews the financial health of the plan. The next full valuation will be at March 31, 2002 for inclusion in the March 2003 annual report. An interim extrapolation of the 1999 valuation results, on a funding basis indicated a $727 million surplus.

The Public Service Pension Plan holds a diversified portfolio of debt and equity investments that facilitates prudent management of risk. The portfolio increased from $11.2 billion in 2001 to $12.1 billion at March 31, 2002.

Active membership in the Public Service Pension Plan decreased by about 4% in 2002. There are over 96,500 active plan members and about 24,600 retired members. The number of retired members grew 2.2% in 2002. The number of pensions granted in 2002 decreased 9% over the number granted in 2001.

Investments as at March 31, 2002

	Performance Benchmarks	March 31	
	2002	2002	2001
		(unaudited)	
Market Value ($ Billions)		12.1	11.2
Market Value Rate of Return			
Basic Account			
Annual	6.8%	3.7%	-3.8%
Five-year Average	8.6%	8.3%	10.4%
Inflation Account			
Annual	5.3%	3.7%	-3.8%

Latest Actuarial Valuation as at March 31, 1999

$ Millions

	Basic Pension Benefits Net Surplus (Unfunded)	
	1999	1996
For Funding Purposes*	939	222
Ratio of Surplus (Unfunded Liability) to Covered Payroll	41%	10%
Based on Accrued Benefits to March 31	1,006	209

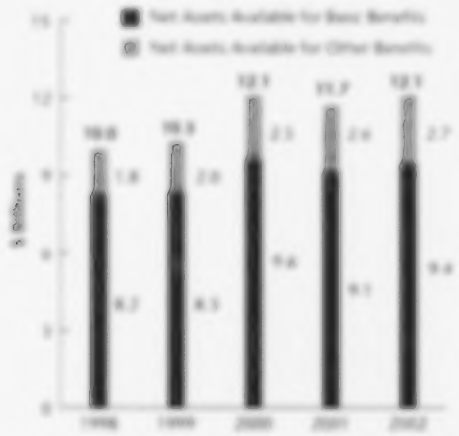
* Assuming contributions continue at existing rate.

2002 Age Profile of Active Members

2002 Membership Profile

* Members no longer employed, but with money in the plan.

Net Assets Available for Benefits as at March 31, 1998–2002



Five-year Summary Statement of Changes in Net Assets Available for Benefits (Unaudited)

$ Thousands

For the year ended March 31	2002	2001	2000	1999	1998
Increase (Decrease) in Assets					
Net Investment Income					
Total Investment Income (Loss)	447,619	(311,161)	1,902,509	296,311	1,839,825
Investment Management Costs	(17,356)	(16,238)	(12,475)	(11,082)	(10,445)
	430,263	**(327,399)**	**1,890,034**	**285,429**	**1,829,380**
Contributions					
Members	150,888	140,960	137,041	142,225	138,139
Employers	182,297	126,929	96,420	195,632	191,944
Transfers from Other Plans	12,377	9,294	4,668	3,729	9,644
Total Increase (Decrease) in Assets	**775,825**	**(50,216)**	**2,128,163**	**625,015**	**2,169,107**
Decrease in Assets					
Pension Benefits	316,770	295,545	276,743	266,864	257,295
Termination Benefits	21,927	22,952	18,411	24,562	40,089
Transfers to Other Plans	20,370	13,810	5,080	530	718
Supplemental Benefits	33,216	8,636	8,468	8,033	7,254
Administration Costs	7,915	6,496	6,717	7,890	7,518
Total Decrease in Assets	**400,198**	**347,439**	**315,419**	**307,879**	**312,874**
Increase (Decrease) in Net Assets	375,627	(397,655)	1,812,744	317,136	1,856,233
Net Assets Available for Benefits at Beginning of Year	11,720,178	12,117,833	10,305,069	9,987,933	8,131,700
Net Assets Available for Benefits at End of Year	**$ 12,115,805**	$11,720,178	$12,117,833	$10,305,069	$9,987,933
			As a Percentage of Net Assets		
Benefit Administration Costs	0.07	0.06	0.06	0.08	0.08
Investment Management Costs	0.14	0.14	0.10	0.11	0.10

Roles and Responsibilities

The partners and key stakeholders are responsible for appointing the trustees. The partners are responsible for directing amendments to the plan, if certain conditions are met, and resolving trustee disputes. The Public Service Pension Board of Trustees is fully responsible for the management of the pension fund, including the investment of the assets and the administration of the pension plan.

The board of trustees may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost neutral to the plan. Plan rule changes that result in contribution rate changes must be approved by the partners. If the actuary determines that it is necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The British Columbia Pension Corporation is directly answerable to the board of trustees for benefit administration service levels. The British Columbia Investment Management Corporation (bcIMC) is directly answerable to the board of trustees for providing investment management services within asset mix policies approved by the trustees.

Investments

Approved Investment Asset Mix

Strategic and short-term asset allocation targets are set within the ranges in the Approved Basic Account Investment Asset Mix table below. Short-term, for asset mix purposes, includes government bonds with one- to five-year terms and money market funds.

Approved Basic Account Investment Asset Mix

	Market Value	
Asset Class	**Lower Limit (%)**	**Upper Limit (%)**
Debt	**25**	**45**
Short-term	0	10
Bonds	15	30
Mortgages	0	10
Equity	**55**	**75**
Canadian Equities	15	30
U.S. Equities	5	20
International Equities	10	25
Real Estate	5	12
Private Placements	0	6

Investment Portfolio

Investments Held as at March 31, 2002

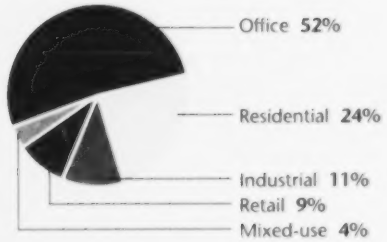
	Market Value ($)	Asset Mix Market Value (%)
Province of BC Pooled Investment Portfolio Units		
Money Market	201,766,899	2
Canadian Bonds		
Government	2,226,671,804	19
Corporate	856,177,111	7
Short-term Bonds (to 5 years)	186,455,475	1
Canadian Equities		
Indexed	1,775,943,619	15
Actively Managed	904,585,407	7
U.S. Equities		
Indexed	1,050,257,241	9
Actively Managed	558,947,098	4
International Equities		
Asia	318,118,786	3
Europe	615,481,522	5
Europe, Australia and the Far East	985,883,994	8
Real Estate	1,175,635,687	10
Mortgages	443,431,032	4
Private Placements	406,953,705	3
Total Pooled Portfolios	**11,706,309,380**	**97%**
Canadian Real Return Bonds	398,714,774	3
Canadian Equities	117,080	
Total Investments	**12,105,141,234**	**100%**
2001 Comparison	11,746,272,121	

2002 Investment Holdings (Market Value)

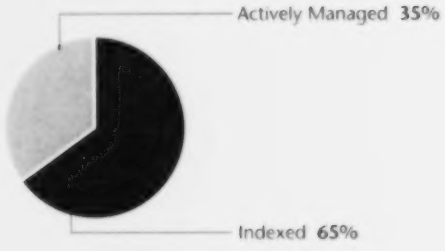
$ Millions
Canadian Equities $2,680.6 22%
Canadian Long-term Bonds $3,481.6 29%
U.S. Equities $1,609.2 13%
International Equities $1,919.5 16%
Real Estate, Mortgages, Private Placements $2,026.0 17%
Short-term $388.2 3%

Canadian Equities (Market Value)

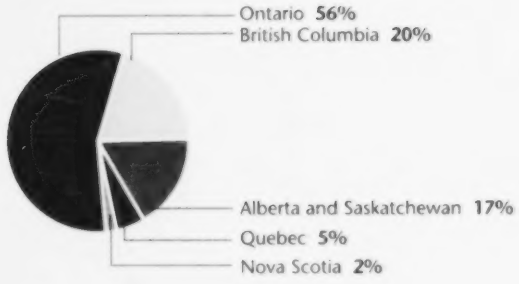
Real Estate, by Type



U.S. Equities (Market Value)

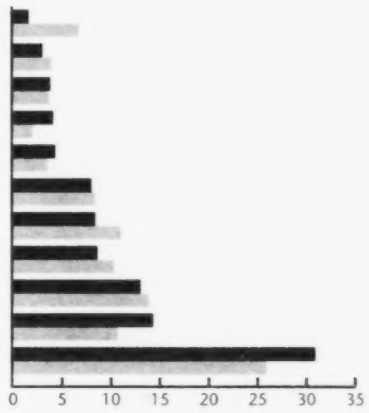


Real Estate, by Location



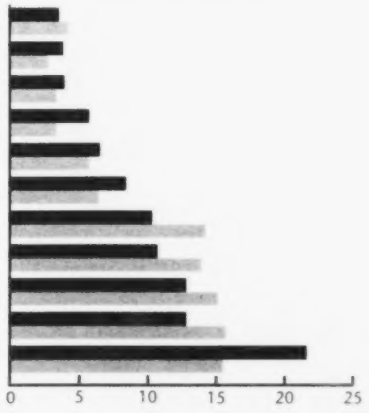
Canadian Equities, by Sector

	Indexed (%)	Actively Managed (%)
Cash and Other	1.6	6.7
Health Care	3.0	3.9
Consumer Staples	3.8	3.7
Utilities	4.1	2.0
Telecommunication Services	4.3	3.5
Information Technology	8.0	8.4
Consumer Discretionary	8.4	11.0
Industrial Products	8.6	10.3
Energy	13.0	13.9
Materials	14.3	10.7
Financial Services	30.9	25.9
	100%	100%

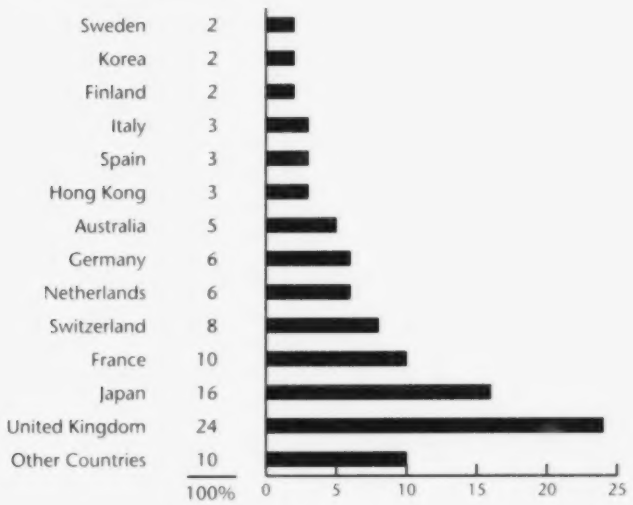


U.S. Equities, by Sector

	Indexed (%)	Actively Managed (%)
Materials	3.5	4.2
Cash and Other	3.8	2.7
Utilities	3.9	3.3
Telecommunication Services	5.7	3.3
Consumer Staples	6.5	5.7
Energy	8.4	6.4
Health Care	10.3	14.2
Industrial Products	10.7	13.9
Information Technology	12.8	15.1
Consumer Discretionary	12.8	15.7
Financial Services	21.6	15.5
	100%	100%



International Equities (%)



Investment Performance

Net Earned Rate of the Fund

Year	%
1998	12.4
1999	11.5
2000	13.9
2001	10.4
2002	**8.5**

Rates of return are based on a five-year average.

Market Value Rates of Return for the Year Ended March 31, 2002

	Basic Account (%)	Inflation Adjustment Account (%)	Basic Account Performance Benchmarks (%)	
Five-year Average Rates				
2002	**8.5**	**8.4**	**8.6**	
2001 Comparison	10.4	10.5	10.2	
Annual Rates				
2002	**3.7**	**3.7**	**4.0**	
2001 Comparison	-3.0	-3.0	-5.6	
2002 Annual Rates by Investment Category				**2002 Performance Benchmark Indices**
Short-term				
Money Markets	3.9	3.9	3.7	SCI 91-Day Treasury Bills
Bonds	5.9	6.0	5.6	SCI All Gov't Short-term
Bonds				
Government	5.0	5.0	4.7	SCI All Government
Corporate	6.6	6.6	6.3	SCI All Corporate Universe
Long-term	4.0	4.0	3.7	SCI All Government Long-term
Real Return	–	1.8	2.3	SCI Real Bond
Canadian Equities				
Actively Managed	10.3	10.3	5.2	TSE 300 Capped
Indexed	5.4	5.4	4.9	TSE 300
U.S. Equities				
Actively Managed	5.3	5.3	2.1	R 1000
Indexed	1.3	1.3	1.4	S&P 500
U.S. Value	-3.2	-3.2	-3.2	S&P 500 Value
U.S. Enhanced	-0.7	-0.7		
International Equities				
Asia	-4.9	-4.9	-14.8	MSCI Pacific Basin Net
Europe	-4.5	-4.5	-4.4	MSCI Europe Net
Europe, Australia and the Far East	-4.8	-4.8	-7.3	MSCI Europe, Australia, Far East Net
Real Estate	7.4	8.0	5.8	CPI + 4%
Mortgages				
Fixed-term	6.3	6.3	6.3	SCI Short-term Bonds + 1%
Construction	5.6	5.6	5.7	SCI One-year Bill + 1%
Specialty	9.1	9.1	7.3	SCI One-year Bill + 2.5%

Performance Benchmark Indices Abbreviations

CPI	=	Canadian Property Index
SCI	=	Scotia Capital Inc.
S&P	=	Standard & Poor's
MSCI	=	Morgan Stanley Capital International
MSCI EAFE	=	Morgan Stanley Capital International Europe, Australia & Far East
R	=	Russell
TSE	=	Toronto Stock Exchange

(Source of annual rates: British Columbia Investment Management Corporation)

Actuarial Valuation/Plan Funding

Every three years an independent actuary assesses the financial health of the plan. At the latest full actuarial valuation as at March 31, 1999, the plan's surplus for funding basic benefits had increased to $929 million, from $222 million in 1996. An interim actuarial report brought forward the results to March 31, 2002, using the same 1999 assumptions but also updating actual asset values, general wage increases and the decrease in employer contribution rates effective April 1, 2002. On that basis, the updated results to March 31, 2001 indicated a $777 million surplus. These results enabled the board to improve the benefit formula this year. The next full actuarial valuation will be at March 31, 2002 for inclusion in the March 2003 annual report.

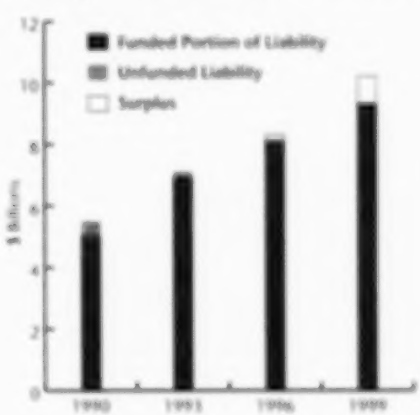
Latest Actuarial Valuation as at March 31, 1999

$ Millions

	Basic Pension Benefits Net Surplus (Unfunded)			
	1999	1996	1993	1990
For Funding Purposes*	929	222	(193)	(438)
Ratio of Surplus (Unfunded Liability) to Covered Payroll	41%	10%	(10%)	(32%)
Based on Accrued Benefits to March 31	1,086	209	(140)	(347)

* Assuming contributions continue at existing rates.

Funding of the Total Basic Benefit Liability



Plan Benefits

The Public Service Pension Plan is a defined benefit pension plan. Benefits are based on the member's highest five years of salary, length of service and age at retirement. The plan provides entitlement to a pension benefit after two years of contributory service. The plan also provides survivor and disability benefits.

Pensions

The number of retired members grew 2.7% in 2002. The number of pensions granted in 2002 decreased 9% over the number granted in 2001.

Pensions are paid at the end of each month, beginning with whichever of the following comes later:

- the month following the month in which the plan member becomes eligible; or
- the month following the month in which the plan member receives the final salary; or
- the month in which the Pension Corporation receives the member's application.

The plan pays a full month's pension for the months in which the retired member dies.

Basic pensions have a significant value. The value of a basic pension depends on a number of factors, including the member's age, salary, and years of service at retirement.

The table below shows the average asset value ('present value') of pensions granted during 2001. The value represents approximately how much it would cost to purchase an average basic pension provided under the Public Service Pension Plan.

Average Values of Regular Pensions Granted April 1, 2001 to March 31, 2002
Subdivided by years of service

Years of Service*	Number of Pensions Granted	Average Annual Salary Base	Average Annual Pension (Single Life Option)	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 years	53	$7,000	$ 4,000	$ 53,000	2.8
10–14	104	$ 8,000	$ 8,000	$ 118,000	12.3
15–19	89	$ 7,000	$ 12,000	$ 177,000	15.8
20–24	171	$ 7,000	$ 15,000	$ 225,000	38.1
25–29	207	$ 2,000	$ 20,000	$ 315,000	65.2
30–34	142	$ 3,000	$ 26,000	$ 406,000	63.4
≥ 35 years	91	$ 4,000	$ 27,000	$ 408,000	41.8
Total	**877**	**n/a**	**n/a**	**n/a**	**$ 261.4**
All Pension Average	n/a	$ 49,000	$ 17,000	$ 275,000	n/a

* Years of service includes service transferred from other plans.

Pensions, 1983–2002

	Public Service			MLA					
	Granted during Year	Pensions Commutations	In Force at End of Year	Granted during Year	Pensions Commutations	In Force at End of Year	Basic Pensions Paid ($ Millions)	Inflation Supplements Paid ($ Millions)	Total ($ Millions)
1983	694	234	17,687	–	3	97	165.7	67.5	186.2
1984	748	271	18,148	2	3	96	196.3	88.9	185.2
1985	880	340	18,687	1	–	97	152.9	98.1	250.1
1986	1,088	362	19,391	–	1	96	168.7	99.2	243.9
1987	1,321	413	20,297	12	2	106	173.8	92.8	220.8
1988	2,178	474	21,961	–	3	103	283.1	98.5	257.3
1989	781	667	22,075	1	2	102	231.3	75.9	206.7
1990	1,064	595	23,116	2	3	102	299.2	78.8	276.8
1991	1,264	658	23,766	1	1	102	334.8	81.1	285.2
2002	**1,149**	**488**	**25,015**	**6**	**2**	**126**	**$436.7**	**$66.1**	**$318.6**

* 1998 corrected to include a beneficiary pension no longer in force at end of MLA

Transfers from the Members of the Legislative Assembly Superannuation Account, 1983–2002

$ Thousands

	Present Value of Pensions Transferred	Inflation Adjustment Contributions Transferred
1983	–	67
1984	600	98
1985	256	114
1986	–	133
1987	4,467	63
1988	–	25
1989	195	68
2000	109	56
2001	222	62
2002	**12,764**	**0**

When a Member of the Legislative Assembly receives a pension, the present value of the pension is transferred from the Members of the Legislative Assembly Superannuation Account to the Public Service Pension Fund, which pays the monthly benefit.

Pensions Granted by Type 1993–2002

	Regular[1]	Death[2]	Disability	Retirement	Total
1993	520	61	80	65	676
1994	579	27	64	72	742
1995	689	27	83	86	885
1996	862	36	98	104	1,099
1997	1,049	27	113	71	1,261
1998	1,161	21	201	121	1,504
1999	726	46	77	116	965
2000	809	61	86	129	1,085
2001	1,017	65	106	96	1,284
2002	977	68	114	118	1,277

1. Pensions granted do not include any pension commuted in whole into any type for death or a pension member.
2. Includes members on long-term disability who become eligible for a regular pension.

Public Service Regular Pensions Granted in 2002
by Age at Retirement – Normal Retirement Age 65

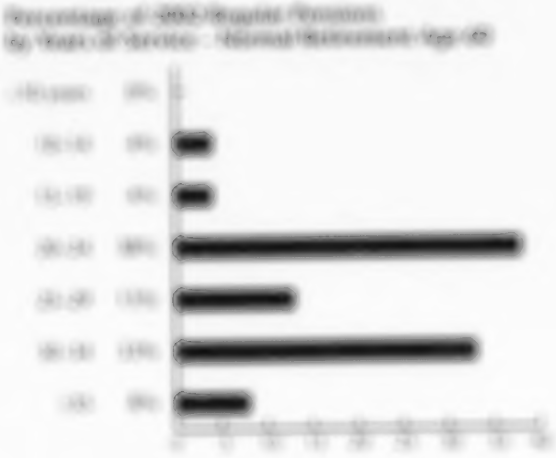
Distributed by years of service and age at retirement

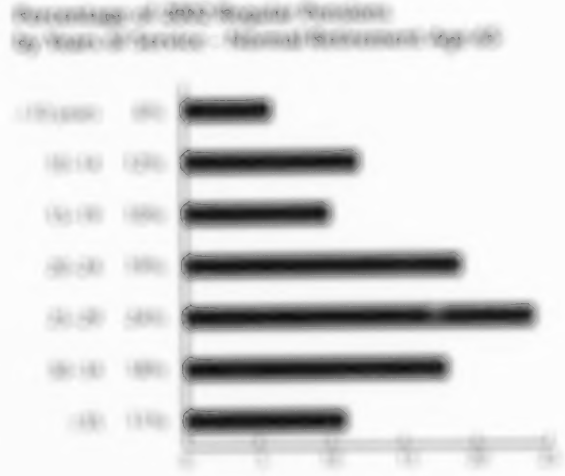
Years of Service	55	55–59	60–64	65	Total
<10 years	–	–	–	–	0
10–14	–	–	1	–	1
15–19	–	–	–	1	1
20–24	–	1	2	3	6
25–29	–	1	3	–	4
30–34	–	1	5	2	8
>35 years	–	–	1	1	2
Total	–	3	12	7	22

Public Service Regular Pensions Granted in 2002
by Age at Retirement – Normal Retirement Age 60

Distributed by years of service and age at retirement

Years of Service	50	50–59	60–64	65	Total
<10 years	4	7	19	21	51
10–14	19	21	62	30	132
15–19	12	23	33	20	88
20–24	21	28	85	28	162
25–29	34	78	70	12	194
30–34	48	57	28	4	137
>35 years	36	15	12	1	64
Total	174	249	309	116	848





Retention Basics

A [redacted] provides [redacted] for [redacted] of [redacted] the following benefits:

- [redacted] of [redacted] [redacted]
- [redacted] of the [redacted] [redacted] of [redacted] [redacted] [redacted] [redacted] [redacted] [redacted] [redacted] [redacted]
- [redacted] [redacted]

The number and value of [redacted] [redacted] could [redacted] [redacted] [redacted] [redacted] [redacted] [redacted] [redacted]

Portability Provisions

Portability allows pension plan members to carry pension rights from one plan to another. For instance, members of the Public Service Pension Plan may carry their years of pensionable service and contributions to a new plan or a different place of employment if the new plan has a portability agreement with the Public Service Pension Plan. Employers who allow pension plan members to transfer their pension rights to other pension plans are called "reciprocal employers."

Members of the Public Service Pension Plan who have made contributions to another pension plan should inquire about portability agreements.

In 2002, there were 424 reciprocal transfers in from other agencies and 192 transfers out. The transfers in totalled $9.2 million; transfers out totalled $2.7 million. As a result of changes in interplan portability provisions, transfers now include those between the Public Service Pension Plan and three other BC public sector plans (College, Municipal and Teachers').

Purchase of Additional Service

It may be possible for plan members to purchase additional service. This service may include:

- approved leaves of absence
- special contributions
- non-contributory service or
- reinstatement of refunded contributions.

The number of purchases of additional service increased 96% from 2001, and the value increased 110%. This is primarily a result of the Early Retirement Incentive Program offered in 2002.

Member and Employer Purchases of Additional Service

	Number of Purchases		Value of Purchases $ Thousands	
	2002	2001	2002	2001
Approved Leaves of Absence	245	126	$91	$45
Special Contributions	48	29	$13	$2
Non-contributory Service	1,464	666	$8,845	4,527
Reinstatement of Refunded Contributions	377	263	$5,362	2,995
Total	2,134	1,084	$14,856	7,844

Plan Members and Contributions

There are three types of plan members in the Public Service Pension Plan:

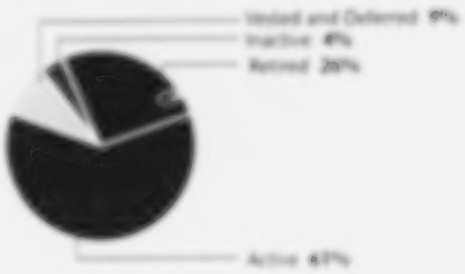
- Active members are currently contributing, receiving benefits from an approved salary continuance plan or are on a leave of absence.
- Inactive members have terminated their employment with contributions deposited in the plan. They may or may not be eligible for a pension in the future. Those who are eligible are known as vested and deferred members. Even if an inactive member is not entitled to a Public Service Pension Plan benefit, they may be eligible for a pension as a result of combining their entitlement in other pension plans covered by the Interprovincial Pension Transfer Agreement. From 1995 onward, the number of vested and deferred members has been adjusted to include these inactive members.
- Retired members are receiving a pension.

Active membership in the Public Service Pension Plan decreased by about 4% in 2002. Today there are over 56,300 active plan members and about 24,600 retired members.

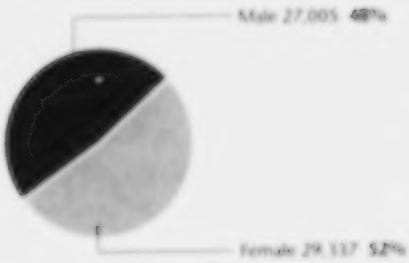
Number of Members

	Active	Inactive	Vested and Deferred	Retired	Total
1998	55,020	4,310	4,964	22,061	86,355
1999	56,128	4,425	5,196	22,595	88,344
2000	56,487	3,561	5,823	23,156	89,027
2001	58,372	3,758	6,748	23,966	91,044
2002	**56,342**	**4,094**	**7,961**	**24,615**	**93,012**

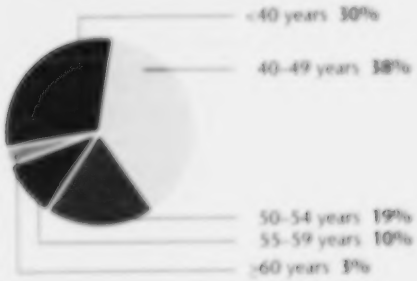
2002 Member Profile



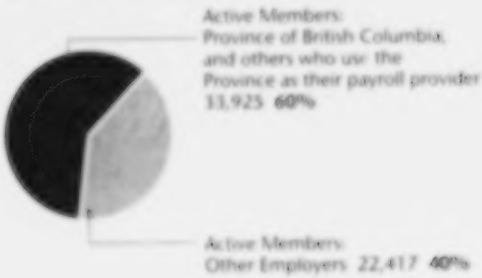
2002 Active Member Profile



2002 Age Profile of Active Members

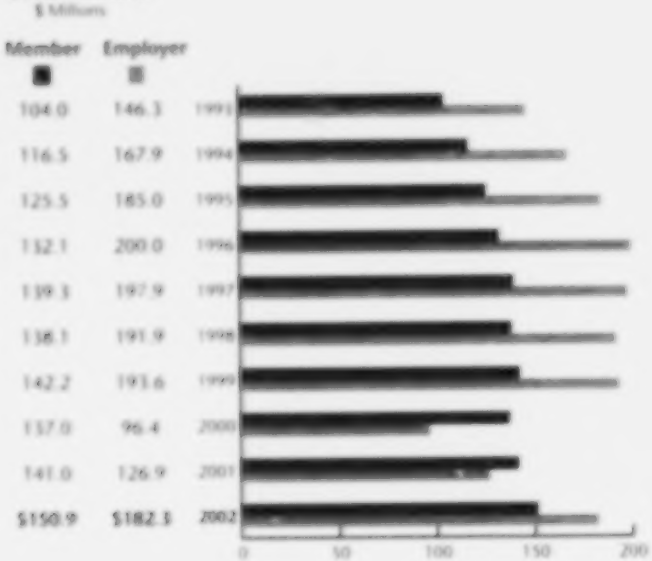


Active Member Employment as at March 31, 2002



Contributions

$ Millions



Members of the Public Service Pension Plan are primarily employees of the British Columbia provincial government and certain Crown corporations, agencies and institutions. Once an employee qualifies to join the plan or elects to contribute, contributions must continue as long as the employee remains with the employer, or until 35 years of pensionable service have accumulated.

Public Service Pension Plan Active Employers

Province of British Columbia

British Columbia Assessment Authority

British Columbia Buildings Corporation

British Columbia Excluded Employees' Association

British Columbia Ferry Corporation

BC Ferry and Marine Workers' Union

British Columbia Government and Service Employees' Union

BC Heritage Trust

British Columbia Housing Management Commission

British Columbia Investment Management Corporation

British Columbia Institute of Technology

British Columbia Liquor Distribution Board

British Columbia Mental Health Society

BC Pavilion Corporation

British Columbia Pension Corporation

British Columbia Provincial Capital Commission

British Columbia Securities Commission

British Columbia Transit Authority (Victoria)

British Columbia Transportation Financing Authority

British Columbia Treaty Commission

Coast Capital Savings

Coast Mountain Bus Company

Columbia Power Corporation

Elections British Columbia

Emergency Communications Corporation

Emergency Health Services Commission

First Peoples' Heritage, Language and Cultural Council

Fisheries Renewal BC

Forensic Psychiatric Services Commission

Fraser River Marine Transportation

Homeowner Protection Office

Industry Training and Apprenticeship Commission

Insurance Corporation of British Columbia

Islands Trust

Land and Water BC Inc.

Oak Bay Lodge Society

Office and Professional Employees' International Union, Local 378

Pacific Vehicle Testing Technologies

Professional Employees Association

Regional Health Boards and Societies (21)

Science Council of British Columbia

Tillicum and Veterans Care Society (Broadmead Lodge)

Tourism British Columbia

Union of Psychiatric Nurses

FINANCIAL STATEMENTS

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AUDITORS' REPORT

To the Members of the Public Service Pension Plan

We have audited the statement of net assets available for benefits of the Public Service Pension Plan as at March 31, 2002 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at March 31, 2002 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada

July 8, 2002

PENSION
CORPORATION

Executive
Offices

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Stn Prov Govt
Victoria BC
V8W 9V8

Location:
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Phone:
250-387-8201
1-800-663-8823
Fax:
250-387-4199

PUBLIC SERVICE PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Public Service Pension Plan were prepared by the British Columbia Pension Corporation, the administrative agent for the board of trustees for the pension plan. The board of trustees is responsible for having annual financial statements prepared in accordance with generally accepted accounting principles. The Corporation prepares the financial statements on the board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Annual Report for the pension plan conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the plan by the board of trustees. The role of the actuary is to complete an actuarial valuation of the plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the plan by the board of trustees. The role of the auditor is to perform an independent audit of the financial statements of the pension plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the auditors' report attached to these financial statements.

JOHN A. MOCHRIE
Chief Executive Officer
British Columbia Pension Corporation

P. LOUISE YOUNG, C.A.,
Vice-President, Information Management,
Finance and Administration
British Columbia Pension Corporation

July 8, 2002

PUBLIC SERVICE PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

March 31	2002	2001
ASSETS		
Investments (Note 3)	$ 12,105,142	$ 11,746,272
Receivables		
Members' contributions	4,894	3,446
Employers' contributions	10,257	-
Accrued investment income	5,163	3,570
Due from MLA Superannuation Account	3,420	264
Due from sale of investments	77,469	174,060
Other	44	2,518
	101,247	183,858
Prepaid expenses	315	1,545
Cash	451	437
Total Assets	12,207,155	11,932,112
LIABILITIES		
Employer rebates (net of contributions receivable)	-	20,173
Payable for purchase of investments	79,327	184,207
Accounts payable and accrued expenses (Note 9)	12,023	7,554
Total Liabilities	91,350	211,934
NET ASSETS AVAILABLE FOR BENEFITS	$ 12,115,805	$ 11,720,178

Obligations for Pension Benefits for Funding Purposes (Note 7)
Obligations for Accrued Pension Benefits for Accounting Purposes (Note 8)
Commitments (Note 11)

All accompanying notes are an integral part of these financial statements

John W. Cook, F.C.I.A.
Chair,
Public Service Pension Board of Trustees

Diane Wood
Trustee,
Public Service Pension Board of Trustees

Ron McEachren
Trustee,
Public Service Pension Board of Trustees

PUBLIC SERVICE PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended March 31	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2002	2001
INCREASE (DECREASE) IN ASSETS					
Net investment income (loss) (Note 4)	$ 554,518	$ 95,745	$ -	$ 650,263	$ (327,599)
Contributions (Note 5)					
Employers', net of reduction (Note 7)					
Province of British Columbia	83,051	15,404	21,467	119,922	79,662
Other	42,296	7,816	12,265	62,375	47,267
	125,347	23,220	33,750	182,297	126,929
Members'	118,931	31,835	122	150,888	140,960
	244,278	55,055	33,872	333,185	267,889
Transfers from other plans	14,645	4,761	-	19,406	9,050
Transfers from MLA Superannuation Account (Note 9)	12,964	9	-	12,973	264
Total Increase (Decrease) in Assets	606,405	155,570	33,872	795,827	(50,216)
DECREASE IN ASSETS					
Pension benefits					
Contributory	250,184	-	522	250,706	254,434
Indexing supplements	66,064	-	-	66,064	41,151
	316,248	-	522	316,770	295,585
Termination benefits	14,010	7,917	-	21,927	22,952
Transfers to other plans	14,808	5,562	-	20,370	13,810
Retired member group benefits (Note 10)	-	-	55,216	55,216	8,636
Benefit administration costs (Note 9)	7,801	-	114	7,915	6,496
Total Decrease in Assets	352,867	13,479	55,852	422,198	347,479
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	253,538	142,091	-	395,629	(397,695)
Account transfers (Note 6)	36,255	(36,255)	-	-	-
INCREASE (DECREASE) IN NET ASSETS	289,793	105,836	-	395,629	(397,695)
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	9,104,250	2,615,928	-	11,720,178	12,117,873
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 9,394,043	$ 2,721,764	$ -	$ 12,115,807	$ 11,720,178

Supplemental Benefits Account (Note 10)

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2002

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN

The Public Service Pension Plan Joint Trust Agreement (the "Agreement") was implemented effective January 1, 2001. The partners to the Agreement were the B.C. Government and Service Employees' Union (the "BCGEU"), the Professional Employees Association, the Union of Psychiatric Nurses and the Provincial Government. The partners on an ongoing basis are the Provincial Government as the plan employer partner and the BCGEU as the plan member partner. The Agreement now governs the pension plan and the pension plan rules are now made under the authority of the Agreement. The Agreement also describes the composition, appointment, powers, functions and duties of the trustees. As a result of the implementation of joint trusteeship, Part 1 of Schedule C of the *Public Sector Pension Plans Act* and related regulations, which governed the plan between April 1, 2000 and December 31, 2000 were repealed.

a) General

The plan is a contributory defined benefit pension plan open to eligible employees of the public service and certain crown corporations, agencies, institutions and other employers approved by the Public Service Pension Board of Trustees (the "Board").

b) Roles and Responsibilities

The Board of Trustees
The partners are responsible for directing amendments to the plan, if certain conditions are met, and resolving trustee disputes. The Public Service Pension Board of Trustees consists of up to fifteen members. The partners and key stakeholders appoint fourteen members representing plan members and plan employers. The other trustees appoint the fifteenth member, the chair. The board is fully responsible for the management of the pension plan, including investment of the assets and administration of the pension plan. The board may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost neutral to the plan. Unless required to ensure compliance with regulatory enactments applicable to the pension plan, plan changes that result in contribution rate changes can only be initiated by the partners.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation is the provider of benefit administration services to the pension plan. The Pension Corporation is directly answerable to the board for benefit administration service levels.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2002

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (CONTINUED)

b) Roles and Responsibilities (continued)

The British Columbia Investment Management Corporation (bcIMC)
The bcIMC is directly answerable to the board for providing investment management services within investment and asset mix policies approved by the trustees.

c) Contributions

Basic Account
Members contribute to the Basic Account 4.25% of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($39,100 in 2002) and 5.75% of salary above that.

Effective April 1, 2001, employer contribution rates in the Basic Account were reduced by 3.5% of salaries to match those for plan members except for certain limited groups (e.g. correctional centre employees, ambulance employees, provincial court judges, deputy ministers and officers of the Legislature) where employers pay a higher rate to compensate for the additional cost of their benefits.

Inflation Adjustment Account and Supplemental Benefits Account
Members contribute 1.25% of salaries to the Inflation Adjustment Account (IAA). Effective April 1, 2001, employers contribute 2.25% (2001 – 1.25%) of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account (2002 – $55 million, 2001 – $0 million) (see Note 10).

d) Pension Benefits

All members with two years contributory service are eligible for a pension benefit. Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups); or
- at age 55 or older, where age plus years of service equals 85 or more or
- at age 50 or older, where age plus years of service equals 85 or more for certain groups.

Other retiring members have a reduction formula applied to their pensions.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2002

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (DESCRIPTION)

d) Pension Benefits (continued)

The plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.5% (1.9%) for members terminating employment on or after March 1, 2002 of pensionable earnings up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years). Pensionable earnings is based on the member's highest five-year average salary (HAS). The plan also provides a bridging benefit with CPP which is payable to age 65 (or the date of death, if earlier). The bridging benefit is 0.7% (0.625%) for members terminating employment on or after March 1, 2002 of the lesser of YMPE or the HAS.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 4 and 7(c)).

In January 1, 2002, retired members received a full CPI increase of 2.3% (2001 – 2.7%).

e) Termination and Portability Benefits

A terminating member who has not yet reached the earliest age at which the member would be eligible to receive an immediate pension is eligible to choose one or more of the following benefits:

- a deferred pension; or
- a refund of the members' contributions with interest;
- a transfer of the commuted value of the pension benefit (the maximum value is the members' contributions with interest) to a locked-in Registered Retirement Savings Plan or similar tax sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements.

Where there are portability arrangements between the plan and other plans, members may be able to carry certain pension rights to those other plans, or transfer contributions and service from those other plans to increase pension benefits under the plan.

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[illegible]

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[illegible]

[illegible]

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

6. INVESTMENT INCOME (CONTINUED)

The income allocation portion of investment income represents pooled investment portfolio income attributable to the plan, as a contributor, and as calculated by the SUPERC, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

5. CONTRIBUTIONS

	2012				2011
	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
				($ Thousands)	
Employee contributions					
Regular	$101,480	$35,432	$ -	$136,912	$136,715
Arrears	129	11	-	140	25
Purchase of service	2,997	914	-	3,911	1,980
Leave of absence	249	95	-	344	224
Reinstatements	4,997	269	-	5,266	2,199
Supplemental benefits	-	-	1,131	1,131	-
	109,852	36,821	1,131	147,804	141,143
Employer contributions					
Province of British Columbia					
Regular	78,852	14,363	-	93,215	75,372
DBP Contributions	28	11	-	39	-
Arrears	522	41	-	563	9
Purchase of service	2,760	954	-	3,714	1,014
Leave of absence	319	59	-	378	229
Reinstatement	1,194	20	-	1,214	974
Supplemental benefits	-	-	20,407	20,407	9,699
	83,675	15,448	20,407	119,530	87,297
Other employers					
Regular	40,389	7,926	-	48,315	42,759
Arrears	34	14	-	48	48
Purchase of service	1,021	284	-	1,305	943
Leave of absence	72	10	-	82	958
Supplemental benefits	-	-	12,304	12,304	6,316
	41,516	8,234	12,304	62,054	51,024
Total Employers	125,191	23,682	32,711	181,584	138,321
Total Contributions	$235,043	$60,503	$33,842	$329,388	$279,464

5. CONTRIBUTIONS (CONTINUED)

Employer regular IAA contributions were $55.1 million of which $33.2 million was allocated to the Supplemental Benefits Account, and employer regular Basic Account contributions were $120.2 million, of which $0.6 million was allocated to the Supplemental Benefits Account.

6. ACCOUNT TRANSFERS

	2002		2001	
	Basic Account	Inflation Adjustment Account	Basic Account	Inflation Adjustment Account
	($ Thousands)			
Present value of current indexing supplements	$ (68,224)	$ (68,224)	$ (66,095)	$ (66,095)
Indexing of deferred pensions	1,453	(1,453)	3,630	(3,630)
Excess interest	(33,446)	33,446	(80,252)	80,252
One time transfer	-	-	(108,000)	108,000
	$ (99,217)	$ (99,231)	$ (112,951)	$ (112,951)

A separate account is maintained for funding current and future indexing supplements. This Inflation Adjustment Account (IAA) is funded through a portion of ongoing contributions from employers and members (Note 2c), from investment income earned on its own assets, and from excess amount earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

Excess amount is based only on investment income earned on those Basic Account assets required for pensions currently being paid, $2.76 million of assets for 2002 ($2.912 million for 2001). The excess interest rate of return is determined by taking the difference between the actual market rate of return based on a five-year average and the rate of return used by the actuary (7.5%) in valuing the plan's liabilities. The calculated excess interest rate of return for fiscal 2002 is 1.2% (2001 = 3.09%).

6. ACCOUNT TRANSFERS (CONTINUED)

Should the excess interest rate calculation ever result in a negative return, the negative return will be carried forward and offset against future excess returns.

7. OBLIGATION FOR PENSION BENEFITS FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry age method.

The most recent full actuarial valuation for funding purposes was prepared as at March 31, 1999. This valuation disclosed a surplus, for basic account pension benefits of $929 million (1996 - $222 million), assuming future contributions at the existing contribution rates in effect at the valuation date. A temporary employer contribution reduction was first implemented, followed by a contribution rate reduction effective April 1, 2001.

The next full valuation will be as at March 31, 2002, with results available for the March 31, 2003 financial statements.

The following table shows a key indicator of the financial health of a pension plan, the Basic Account surplus/unfunded actuarial liability (UAL), as a percentage of payroll, for the three most recent actuarial valuations. (Values shown in the table assume future contributions at the rates in place at the time, rather than the actuary's calculated rates.)

Actuarial Valuation Date	Actuarial Value of Basic Account Assets (w)	Basic Account Actuarial Liability (x)	Basic Account Surplus (UAL) (y)	Covered Payroll (z)	Surplus (UAL) as a Percentage of Payroll (y/z)
	($ Millions)				
1995	6,806	7,089	(195)	1,859	(10%)
1996	8,214	7,992	222	2,212	10%
1999	10,206	9,227	929	2,261	41%

7. OBLIGATION FOR PENSION BENEFITS FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

In accordance with the Joint Trust Agreement, an interim extrapolation of the March 1999 valuation results was performed subsequent to March 31, 2001, to bring the results forward to March 31, 2001, using the same long-term actuarial assumptions, but also:

- updating asset values to March 31, 2001
- adjusting liabilities and payrolls for actual general salary increases in the two-year period since the valuation
- allowing for employer rebates that occurred from April 1, 1999 to March 31, 2001
- adjusting for the plan rule change to the bridge benefit, effective April 1, 2000
- adjusting for the $100 million transfer from the Basic Account to the Inflation Adjustment Account, effective January 1, 2001
- adjusting for contribution rate changes implemented through the Joint Trust Agreement (Note 1c)

On that basis, the extrapolated results, on a funding basis, to March 31, 2001 indicate a $777 million surplus.

The Joint Trust Agreement specifies a transitional period during which the rebalancing of member and employer contribution rates and specified benefit improvements will be achieved. During this transitional period, if an actuarial valuation indicates that increased basic account contribution rates are required to fully fund the plan on a going-concern basis, the increase shall be shared equally by members and employers.

After the transitional objectives have been achieved, if an actuarial valuation indicates that increased basic contribution rates are required, the increase must be shared equally by members and employers. The agreement also describes the manner in which the Board can elect to apply surplus assets.

b) Inflation Adjustment Account

No unfunded liability exists for the IAA since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members full funding for that granted indexing, on a net present value basis, is transferred from the Inflation Adjustment Account to the Basic

7. OBLIGATION FOR PENSION BENEFITS FOR FUNDING PURPOSES (CONTINUED)

b) Inflation Adjustment Account (continued)

Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the plan rules, nor is there any plan provision or intention to fund the Inflation Adjustment Account to any minimum level of future potential indexing.

The Public Service Pension Board of Trustees monitors the performance of the Inflation Adjustment Account and, at least annually, reviews the projected impact on the account of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the board to identify some years in advance of its possible occurrence, the point at which the Inflation Adjustment Account assets may cease to grow and beyond that, the point at which full indexing benefits may not be able to be granted. As long as there are contributions to the Inflation Adjustment Account, there will be some measure of indexing protection for retired members.

8. OBLIGATIONS FOR ACCRUED PENSION BENEFITS FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years and its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the plan as described in Note 7a. As part of the actuarial valuation the actuary calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included as they are for the valuation for funding purposes in Note 7a.

The Basic Account is the account from which the defined basic benefits of the plan are paid and from which any indexing that has been granted to retired members, is also paid. Future indexing benefits are not guaranteed within the plan provisions and are granted to retired members only to the extent that sufficient money is available from the Inflation Adjustment Account to fund those benefits. As indexing is granted, the Basic Account receives from the Inflation Adjustment Account the necessary net present value funding for the granted indexing. Therefore accrued basic pension benefits, for valuation purposes, include the liability for all indexing granted to the date of the valuation, but not, as yet unknown, future indexing.

8. OBLIGATIONS FOR ACCRUED PENSION BENEFITS FOR ACCOUNTING PURPOSES (CONTINUED)

The latest full valuation was made as of March 31, 1999 by Eckler Partners Ltd. Net actuarial assets in the Basic Account as at that date were $7,425 million ($7.4 billion) [1996 - $5,432 million ($5.4 billion)]. Liabilities for accrued basic pension benefits were $6,339 million ($6.3 billion) [1996 - $5,223 million ($5.2 billion)]. As a result, on an accrued benefits basis, there was a Basic Account surplus of $1,086 million ($1.1 billion) [1996 - $209 million ($0.2 billion)]. The next full actuarial valuation will be as at March 31, 2002, with results available for the March 31, 2003 financial statements.

The present value of liabilities for pension benefits accrued to the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. Actuarial liabilities and net assets reflect the following long-term actuarial assumptions:

- annual investment return 7.3%
- annual salary escalation rate 4.8%

In accordance with the Joint Trust Agreement, an extrapolation of the March 1999 valuation results was performed subsequent to March 31, 2001, to bring the results forward to March 31, 2001, using the same long-term actuarial assumptions, but also:

- updating asset values to March 31, 2001
- adjusting liabilities and payrolls for actual general salary increases in the two-year period since the valuation
- allowing for employer rebates that occurred from April 1, 1999 to March 31, 2001
- adjusting for the plan rule change effective April 1, 2000 affecting the bridge benefit
- adjusting for the $100 million transfer from the Basic Account to the Inflation Adjustment Account, effective January 1, 2001

On that basis the extrapolated surplus on an accrued benefit basis to March 31, 2001 was $1,765 million. For accounting purposes, a further extrapolation of accrued benefit obligations is required to the year end date. This has been done to March 31, 2002 using the same long-term actuarial assumptions as above and adjusting for benefit improvements that were effective March 1, 2002. On that basis the extrapolated surplus is $1,690 million.

8. OBLIGATIONS FOR ACCRUED PENSION BENEFITS FOR ACCOUNTING PURPOSES (CONTINUED)

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the Inflation Adjustment Account, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. RELATED PARTY TRANSACTIONS

a) Transfers from Members of the Legislative Assembly ("MLA") Superannuation Account

	2002	2001
	($ Thousands)	
Present value of MLA pensions granted	$12,964	$222
Contributions for indexing supplements	9	42
	$12,973	$264

When a Member of the Legislative Assembly (MLA) is granted a pension, the present value of the pension is transferred from the Members of the Legislative Assembly Superannuation Account to the Plan, from which monthly benefits are paid.

During the year ended March 31, 2002, 26 MLA pensions were granted (2001 - 1).

b) Benefit Administration Costs

Administration costs include general benefit administration costs incurred by the Pension Corporation, actuarial fees and board expenses. General administration costs incurred by the Pension Corporation are prorated and charged to each pension plan under its administration based primarily on the relative numbers of members in each plan. Included in benefit administration costs is $7.7 million of Pension Corporation benefit administration costs and in the accounts payable balance is $0.6 million due to the Pension Corporation for those costs.

9. RELATED PARTY TRANSACTIONS (CONTINUED)

c) Investment Management Costs

The bcIMC manages investments on behalf of the board and uses internal and external investment managers for this purpose. Total investment management fees for 2002 were $17.4 million (2001 - $16.2 million).

10. SUPPLEMENTAL BENEFITS

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act* (Canada) limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through the account.

The availability, type and level of this retiree group benefit coverage is contingent upon the availability of funds within the Supplemental Benefits Account to fund such benefits.

Effective April 1, 2001 funding of retiree extended health care plan benefits, medical services plan premiums, and group life premiums, occurred through the Supplemental Benefits Account, as well as dental benefits previously allowed.

11. COMMITMENTS

The plan participates in the Private Placements pools managed by bcIMC. These pools consist primarily of investments in limited partnerships.

As at March 31, 2002, the Public Service Pension Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $733 million.

12. FINANCIAL INSTRUMENTS

The plan's financial instruments consist of cash, investments, accounts receivable and accounts payable. The fair values of these financial instruments approximate their carrying values.

The plan's investments are exposed to market risk due to changing market conditions. The plan manages market risk by monitoring asset allocation strategies in relation to asset mix guidelines set by the board, and by diversifying investments within various asset classes to control overall market risk.

Public Service Pension Plan